Convergent Paths: A Comparative Analysis of Turkey and Egypt from Independence to the Present

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April 2014

ABSTRACT

As the two most populous nations in the MENA region, as well as some of the largest geographically, Egypt and Turkey are certainly major players in both the geopolitics of the region and the greater regional economy. Aside from their similarly large, relatively homogenous populations (although both countries also have notable minority groups), Egypt and Turkey are similar in many other ways. Both have had a troubled past regarding the relationship of their respective militaries to the sources of political power, both achieved modern statehood in the first half of the 20th century, and both have large and diversified national economies and significant natural resources, with varying levels of private and public sector participation. However, their economic realities are radically different, and this is reflected in their relative political stability as well as their economic vitality. Turkey's relative success, however, was not due to some innate structural difference between their economy and Egypt's (for a long time they had similar policies and patterns of growth), and Egypt may be the most suited to adopting the "Turkish Model" in the future.

I. INTRODUCTION

The purpose of this paper is to explore both the similarities and differences in the economic and social conditions of Turkey and Egypt at the time of independence, and then to further examine the paths that each nation took in developing their economy. My intention is to highlight the successes and failures of both countries which have resulted in their respective levels of economic development today. My analysis will

include the relative prevalence of public sector and private sector development throughout statehood, the level of foreign direct investment, the varying economic sanctions and subsidies that may have been imposed throughout the last century, political conditions that may have impacted growth, public policy, and the impact of military governance on growth.

Turkey has nearly 3 times the per capita GDP of Egypt at purchasing power parity (World Bank, 2013). The "Turkish Model" is being touted as one of potential success for Muslim-majority MENA economies, and many countries in the region wish to duplicate their recent economic success. It should be remembered, however, that Turkey struggled through many of its post-revolution decades with a military-led command economy, and only after several serious economic crises did it become the (comparatively) liberalized globalist economy that it is today. Egypt famously went through very similar tumults and continues to do so.

II. ECONOMIC CONDITIONS 1920s-1950s

Neither Turkey nor Egypt were developed industrial economies at the time of independence. In 1922, when Mustafa Kemal founded the Turkish republic, he inherited the core of a war-torn Ottoman Empire which had operated under feudal, often theocratic conditions which retained many antiquated political and economic systems. The radical reforms of Mustafa Kemal undertaken after the Turkish Economic Conference of Izmir have been described as "conservative and nationalist…providing

governmental support for private enterprises" (Takim & Yilmaz, 2010). This essentially led to a development plan with heavy national subsidies for private enterprises, and extensive involvement of the Turkish state in the economy. This translated into a policy during the 1920s-30s of import-substitution industrialization (ISI) as the primary method of protecting national development from more advanced economies, the establishment of state monopolies, the establishment of national banks, and the nationalization of foreign enterprises (Karaman, 1998). This policy had short-term success and resulted in a government surplus for the Turkish government, but created the structural problem of over-reliance on state support by enterprises which would hinder future development and hinder the formation of an entrepreneurial class.

Egypt of the 1920s was a similarly agrarian economy, and its economic system was largely geared towards providing raw materials and absorbing exports for the United Kingdom, which controlled Egypt as a protectorate. In the 1920s, 75 percent of Egypt's exports were raw cotton, with only about 4 percent of the population engaged in industrial production of any sort (Hawash, 2007). Egypt's 1920 population of 13 million was nearly identical to that of Turkey. Unlike Turkey however, Egypt did not achieve complete economic independence until a 1952 coup d'état overthrew the British-influenced king and formed a republic which came to be led by famed Egyptian president Gamal Abdel Nasser. Nasser similarly focused on ISI as his development scheme, and focused his attention on developing Egypt's textile manufacturing and other important national industries such as petroleum.

The first national governments in both Turkey and Egypt inherited their nations in similar states of economic development. Both nation-states were heavily agrarian with little in the way of industrial production. In an effort to promote industrialization in a largely agrarian state, both Turkey and Egypt elected to pursue policies of import-substitution industrialization. The intent was to reverse the economic relationship wherein these economies exported raw materials and food while importing finished goods from more developed industrial states. This was achieved through high tariff rates, import quotas, and currency overvaluation (Moursi & Wahba, 1994). It is interesting to also note that both of these economic policies were informed by a sort of nationalist paternalism as opposed to leftist socialism, with Nasser pursuing a policy of Arab Unity and the Turkish operating as a nationalist single-party regime under Ataturk and his successor Ismet Inönü.

III. WAR AND MILITARY RULE: CAUSES AND EFFECTS

By the late 1950s, there appeared to be a divergence developing between Turkey and Egypt in their paths to industrialization. As power in Egypt was consolidated in the hands of Nasser and ISI policies were introduced in the 1950s, a new democratically-elected Turkish president named Adnan Menderes was attempting to push forward a liberalization scheme for the Turkish economy, intending to integrate it with the post-war western economy dominated by the United States. The Turkish economy grew rapidly during this period, but then harshly contracted as inflation rose and growth

weakened, leading to an economic crisis in 1958 as world agricultural prices decreased and the (still largely agrarian) Turkish economy found less favorable terms of trade. The crisis culminated in a military coup by the Turkish military in 1960, followed by a doubling down of protectionist policies and import substitution methods. This policy continued for twenty years after the coup, and it had long-lasting effects on the vitality of the Turkish economy. Growth continued, however, as Turkish industrial development was refocused towards the internal market and away from the world market, but overall economic efficiency and productivity levels suffered, leading to systemic problems which would later resurface as a crisis.

Egypt, meanwhile, continued its policy of state-focused industrial growth. Nasser's Egypt during this period was seeing sustained economic growth and national development. Upward mobility and improved living conditions spurred by heavy government assistance allowed millions of Egyptians to rise to middle-class status (T. Osman, 2010). The consequence of this development was a massive consolidation of economic power in the hands of the state: by 1963, all financial institutions, transportation, and all significant manufacturing concerns were owned by the public sector (Abdelazim, 2002). This development started to falter as the Arab-Israeli conflict escalated, beginning with the Six Day War. After the 1967 defeat by Israel, Egypt suffered from a deep recession and available resources had to be diverted to defense purposes in preparation for the next war (Chang et al, 1995). The 1973 war contributed to the rising incapacity of Egypt to support multiple full-scale wars while also attempting

to guide their domestic economy. After Nasser's death in 1970, his successor Anwar Sadat would attempt to reverse some of his policies, and Sadat would begin a policy of liberalization.

In both the case of the Turkish military coup and the Egyptian involvement in the Arab-Israeli conflict, the tumults of political structures had a significant negative effect on the economy, largely due to the fact that both Egypt and Turkey had economies that were overwhelmingly dominated by the public sector. In the case of Turkey, rapid policy changes led to overexposure and economic crisis, and later economic regression as ISI was reintroduced and intensified. In the words of Ziya Öniş, "Turkey's democratic deficits have been a source of economic and political instability and have exerted a downward bias on the country's economic performance" (2010). This continues to be the case for the struggling democracy. Egypt, as well, was economically damaged by its political instability and foreign policy, but was able to insulate itself somewhat due to its ability to export crude oil and as well as foreign aid (Moursi & Wahba, 1994). Nevertheless, Egypt would soon undergo policy changes as well, as its model of high tariffs and a large public sector was leading to economic stagnation and lackluster growth.

IV. LIBERALIZATION, POLITICAL UNCERTAINTY, AND ECONOMIC CRISIS

The relationship between Egypt and Turkey's political instability and their economic fortunes becomes apparent as we observe the economic policy changes of the 1960

Turkish coup and the 1970 Sadat regime in Egypt: In the former case, rapid liberalization led to overexposure to the world marketplace, crisis, and a policy reversal towards protectionism. In the latter case, the statist command economy became overextended, which led to a crisis and eventually a policy reversal towards liberalism.

Anwar Sadat inherited a post-war Egypt which was widely considered to be suffering from "inefficiency, suffocating bureaucracy, and waste" (T. Osman, 2010). Sadat wanted to reverse the policies which were leading to a militarized, command-economy Egypt. This led to both a geopolitical realignment towards the United States and away from the Soviet Union and a new economic policy which Sadat called “Infitah”, or “openness”, which was enacted in full by 1974. Infitah did not completely dismantle the statist orientation of the Egyptian economy, and policies of import substitution and export promotion were still pursued even as public control of the economy was loosened. In pursuing such liberalization, Sadat eventually alienated himself from many citizens who had come to depend on the vast state structures for their livelihood. Food riots in 1977 forced Sadat to reinstitute government food subsidies for basic commodities (McLaughlin, 1978). The policies did not lead to explosive economic growth nor did they substantially shift the Egyptian economy away from its protectionism, but they helped orient the Egyptian economy back towards the world market and away from the Soviet bloc.

Following the 1960 coup, Turkey entered a twenty year period of ISI-oriented internal development strategies, led by a succession of conservative coalition governments and facilitated by an additional military coup in 1971. The conservative coalition governments ran large deficits in order to fund their national construction projects in the form of Soviet-style "five year plans" developed by the State Planning Organization (Görmez & Yiğit, 2009). Turkey experienced moderate growth in the 1960s and early 1970s, but as the budget crisis of the Turkish government loomed the economy began to falter, and then contract dramatically as the government continuously devalued the lira. As the Turkish economy once again descended into crisis, another military coup took place in 1980, abolishing the government and banning all political parties. Eventually order was restored, and power was handed over to Turgut Özal and the Motherland Party.

The rise of the Motherland Party in 1983 marked another dramatic reversal in the economic policy of Turkey. Following the coup, the new Turkish government pursued a policy of aggressive economic liberalism. Echoing some of the rhetoric of Sadat, there were calls within the new Turkish regime to unite Turkey with the global economy. The ISI development model was abandoned in favor of export-led growth. The Turkish foreign exchange rate was allowed to free float and modern security exchanges were developed in Turkey. While ultimately successful, this began a string of periodic economic crises in Turkey throughout the 1980s and 1990s, as rapid expansion led to balance of payments crises and significant inflation (Macovei, 2009). Nevertheless,

Turkey would continue its liberalization trend despite significant economic and political turmoil.

Egypt's relatively ineffective policy of Infitah gave way to more structural reform 1991, when the Egyptian Economic Reform and Structural Adjustment Program (ERSAP) was implemented. Much like the liberalization policies of the Motherland Party in Turkey ten years before, The ERSAP aimed to reduce protection on the domestic industry, with emphasis on the removal of import barriers, increasing exports and the rapid strengthening of the role of the private sector in industrial development (Aglan, 2003).

V. GLOBALIZATION, REVOLUTION, AND THE FUTURE

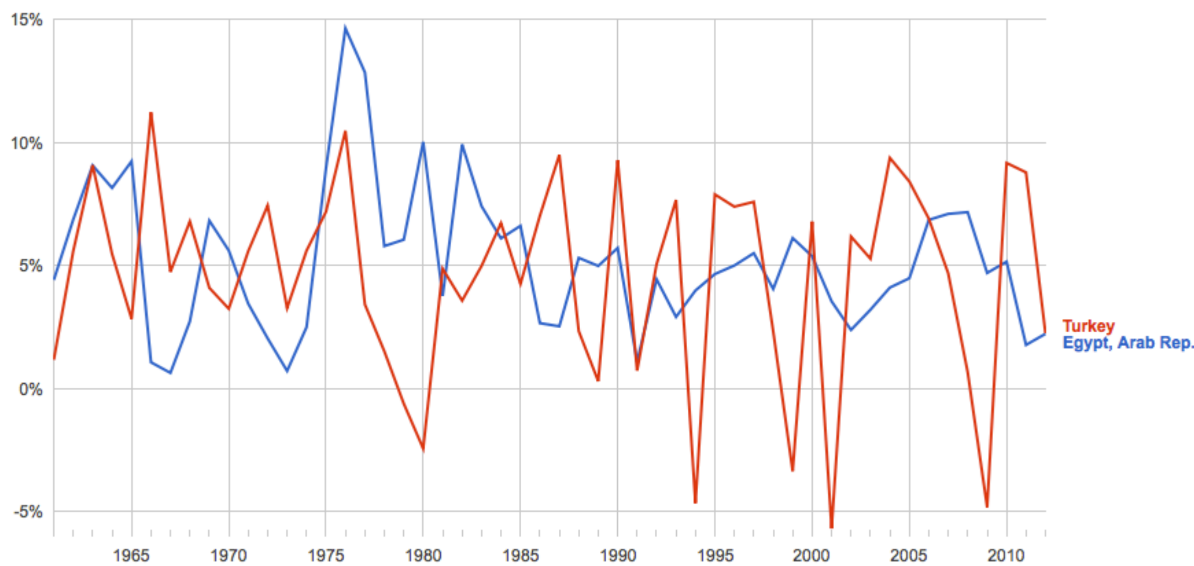
As both Turkey and Egypt increased their exposure to global market conditions, they also increased the volatility of their growth cycles. Turkey has suffered numerous economic crises in the last 20 years, significantly their 2001 financial crisis in which a slowdown of foreign direct investment caused a budget crisis on the part of the Turkish government, which had come to rely on foreign investment to drive growth. Turkey has found it prudent in recent years to shift their focus away from traditional western markets and towards emerging economies, and the result has been a period of largely sustained growth. Turkey had 5.2% average GDP growth from 2002-2011 and it has become the largest economy in the MENA region by far. Extensive political problems and a consistently high inflation rate will likely cause further economic troubles in the future, but there is no mistaking the success of Turkey's liberalization program.

Egypt's economic reforms have had significant positive results, but have failed to transform the economy to the degree of Turkey. Egypt maintained positive growth until the Global Financial Crisis of 2008 managed to destabilize both the economy of the country and its socio-political framework. Egypt has since been embroiled in revolution and sectarian violence, and this is reflected in the state of its economy. A major issue in the ongoing Egyptian political crisis is the age-old debate between a return to the large-scale paternalist state structures of the old Egyptian regime and additional privatization efforts to coincide with the liberalization reforms.

VI. COMPARISON OF DATA

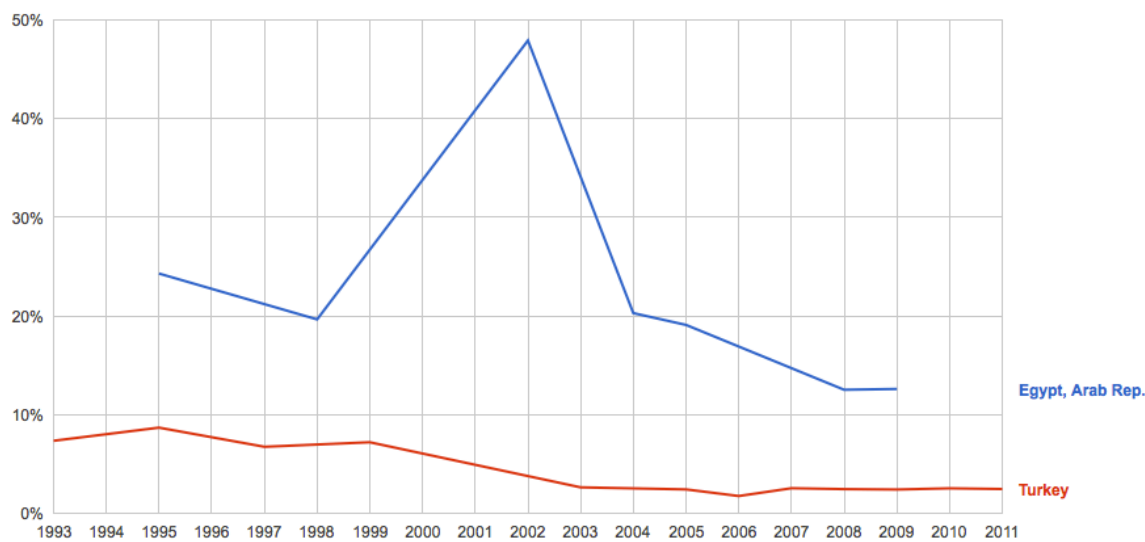
In this section I will attempt to highlight some points of divergence between the Turkish and Egyptian economies in order to better understand how Egypt and Turkey compare on several macro indicators.

Annual GDP Growth Rate 1960-2013



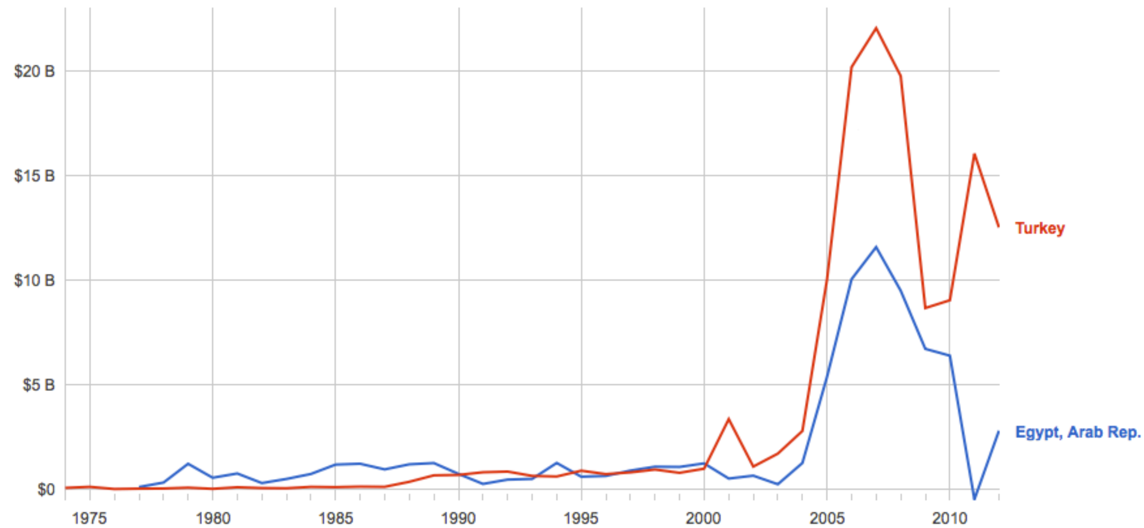
The volatility here for both nations is telling: short periods of very high economic growth followed by sharp contractions in several-year periods. It is worth noting that Egypt has never suffered negative GDP growth in this period despite periods of obvious contraction, and this is most likely due to the insulating effect of their oil exports, as well as the foreign aid they have historically received. The results of Turkey's post-1980 liberalization scheme can be seen here, with multiple extreme boom-bust cycles. These did not exist in the preceding 15 years, as positive growth was largely maintained by the protective policies.

General Tariff Rate (simple mean) 1993-2011



The tendency of Egypt to enforce much higher tariff rates than Turkey is one reason why the Turkish economy is somewhat more volatile in recent decades, but it is also a contributor to the general competitive advantage of Turkey over Egypt in the world economy, including attractiveness to foreign investment. As shown here, Turkey has consistently pursued a policy of liberalization and elimination of trade barriers, and has reaped the benefits in the form of economic growth. For two countries with such similar paths of development, it seems reasonable to assume that further decreases in tariffs on the part of Egypt will lead to greater overall competitiveness and shift towards the "Turkish model".

Foreign Direct Investment, Net Inflows 1975-2013



The inflows of foreign direct investment further illustrate the idea that, despite the volatility brought by low trade barriers and liberal economic policies, Turkey has been able to attract a humongous amount of foreign investment in the last decade. The 2008 financial crisis had an apparent effect on these FDI inflows, although there is clearly a significant rebound post-2010. Egypt, by contrast, had a complete bottoming out of FDI during their 2011 revolution. Political stability remains elusive, but if favorable policies can be maintained Egypt can most likely expect a return to their FDI levels of the previous decade.

VII. CONCLUSIONS

My historical analysis as well as the economic data comparing Egypt and Turkey show an obvious and significant common thread between them: both began as centralized, nationalist states with an ISI-oriented internal development model with significant state

control. Both experimented with liberalism early on and lacked the political stability to survive the tumult of the global marketplaces, but subsequently suffered economic regression as they abandoned those policies. Now, both have resumed the process of integration into the world economy and greater economic dynamism, but their success is not quite guaranteed. Turkey would seem to be around 10 years ahead of Egypt in this process, and there are many factors which led to a lag on the part of Egypt, such as the sheer magnitude of public economic control during the Nasser era and Egypt's large petroleum reserves imparting symptoms of "Dutch disease".

One might argue that an aggressive path of liberalism simply may not work for Egypt the way it has for Turkey, and that the economic protectionism that Egypt enacted was a preferable approach. To counter this, Refaat explains that "open economies grew at an average annual rate of 4.5 percent over the 1970s and 1980s, while closed economies grew at only 0.7 percent. Egypt was among the inward-oriented countries that started the 1970s with GDP growth rates that were higher than many outward-oriented countries at the time, then deteriorated and ended up worse off" (2003).

The cultural, social, and political differences between Egypt and Turkey should not be understated and should be taken into account for any meaningful comparison of the two economies. Egypt has a much stronger Islamist element as well as a more precarious modern history with their neighbors. However, the clear similarities between the economic policy histories of Turkey and Egypt—and their similar successes and

failures—leads me to believe that Egypt could easily be a dynamic economic power on par with Turkey, if future political fortune and sound economic policy allows.

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